



DATE OF ISSUE: February 27, 2006

TO: Potential Providers of Services

RE: Request for Proposals for the Sub-Servicing of the Single Family Mortgage Loan Portfolio.

**I. Services Sought by the Authority:**

The Michigan State Housing Development Authority (the "Authority") currently employs Dovenmuehle Mortgage, Inc. ("DMI") as its sole sub-servicer. The Authority desires to enter into a contract or contracts with one or more sub-servicers (Contractors), one of which may be DMI, at the expiration of its current contract with DMI. The current contract expires January 31, 2007. The new contract will be for three years with the possibility of one two-year extension. The Authority's portfolio consists of approximately 8,800 first mortgage loans. These loans are originated in the names of various participating lenders. Once the Authority has reviewed the loans, the Authority purchases them from the lenders and the servicing is released. In addition, many of those mortgage loans have non-interest-bearing, non-amortizing down payment assistance loans ("DPA loans") associated with them. None of the Authority's loans are adjustable rate mortgages, but the Authority does hold certain "step loans," for which the interest rate increases one percent, one time, after 36 months. The Authority also has entered into a number of "HELP Loans" which are also non-interest-bearing, non-amortizing loans, given to borrowers who were in danger of foreclosure.

The Contractor will sub-service all, or a portion, of the Authority's single family mortgage loans, including the DPA, step and HELP loans. This will involve transferring loans from the present sub-servicer and setting them up on the Contractor's system. The Contractor may also receive future loans originated by the various mortgage lenders that presently originate Authority loans. Whether or not a Contractor receives new loans will depend on the Contractor's entering into agreements with the originators to sub-service loans that the originator produces. For all loans that the Contractor services, the Contractor will collect the monthly payments due from the borrowers; apply the payments to principal, interest, taxes and insurance; pay borrowers' tax and insurance bills from escrow; remit payments to the Authority; provide payoff statements to borrowers

as requested; process discharges of mortgages; and submit reports on all such activity. The Contractor will also monitor borrowers for delinquency; contact delinquent borrowers; arrange to bring the loans current, if possible; enter into appropriate loss mitigation arrangements with delinquent borrowers; and, when necessary, process mortgage loans through foreclosure. All procedures regarding delinquency, loss mitigation and foreclosure shall be with the approval of the appropriate mortgage insurer or guarantor, if applicable. The Contractor will assure compliance with the Mortgage Bond Subsidy Tax Act, and other state and federal laws involving mortgage servicing, while also diligently protecting the Authority's interest in the mortgage loans.

A detailed description of the work is described in the Scope of Work, which is attached as Exhibit A to this Request for Proposals.

## **II. Required Qualifications:**

The Authority has identified the following qualifications that it believes are necessary for the successful performance and completion of the services described in the Scope of Work, which is attached as Exhibit A. The Contractor must affirm that it will meet certain qualifications and accept certain terms and conditions, as set forth in this section.

### **Sub-Servicer Experience**

The Contractor must have extensive experience and a demonstrable commitment to servicing mortgage loans. At a minimum, the Contractor must have been in business for at least three years. In addition, the Contractor must have substantial experience servicing loans for households with original mortgage balances of less than \$70,000. The Contractor must also currently service a minimum of \$150,000,000 in single family first mortgage loans and must currently service second mortgages. The Contractor must be capable of tracking and servicing non-amortizing, non-interest-bearing second mortgage loans. Such servicing must include the ability to generate separate payoff statements for the first and second loans, the ability to generate payoff statements that include both the first and second mortgage loans as separate line items, and the ability to prevent unintended principal payments to the second mortgage loan.

### **Mortgage Revenue Bonds**

The Contractor must certify that it is familiar with the Mortgage Subsidy Bond Tax Act of 1980, as amended, and the requirements necessary for obtaining and maintaining the tax-exempt status of Mortgage Revenue Bonds.

#### Required Approvals

The Contractor must currently be approved to service, and have significant experience in the servicing of, conventional, FHA, VA and RD loans. In addition, the Contractor must have one or more FHA Direct Endorsement underwriters on staff and one or more VA Automatic underwriters on staff. The Contractor must also be a Freddie Mac or Fannie Mae approved seller-servicer.

#### Delinquency Control

The Contractor must have a demonstrably superior ability to control delinquency levels. At a minimum the Contractor's delinquency ratio shall not exceed the most recent national overall delinquency ratios published by the Mortgage Bankers Association of America ("MBA"). If a Contractor's portfolio is limited to regions designated by the MBA, the Contractor shall not exceed the most recent MBA overall delinquency ratios for those regions. The Authority will consider detailed explanations such as high concentrations of newly acquired poorly performing portfolios or FHA or VA servicing as offsetting factors; however, delinquency ratios for government loans shall not exceed national or regional averages published by the MBA. The Contractor must provide a Portfolio Delinquency Report for its servicing portfolios that shows the past due delinquency ratios for the past 36 months. Delinquency rates for 30, 60 and 90+ days higher than the most recently reported MBA national and regional rates must be satisfactorily explained.

#### Authority to do Business in Michigan

The Contractor must provide evidence that it is permitted to do business in Michigan. Acceptable documentation is a certified copy of the Contractor's Articles of Incorporation and Good Standing Certificate (or comparable documentation if the Contractor is not a corporation), or a Certificate of Authority to Transact Business, if the Contractor is a foreign corporation (or entity). All such certificates shall be dated within 30 days of submission, and the Contractor must agree not to terminate its ability to do business in Michigan during the term of the contract.

#### Office Located Within Michigan

The respondent must agree to at all times maintain an office located in the State of Michigan for, among other things, the purpose of assisting the Authority, lenders and consumers in all acquisition and servicing issues associated with the Authority's portfolio.

#### Access to Contractor

The Contractor must certify that, if awarded this contract, it will, during the term of the contract and any extensions, maintain both an e-mail address and a toll-free telephone number accessible to the Authority's borrowers. Such toll-free service must include TTY service.

#### Training

During the term of the contract, the Contractor must be able and willing to conduct training within the State of Michigan, which training will instruct lenders of the methods necessary to package loans so that the Contractor can set the loans up on its system.

#### Experience of Contractor on Sub-servicing Contracts of Similar Scope

The Contractor must provide a comprehensive listing of contracts of similar scope that it has successfully completed, as evidence of the Contractor's ability to successfully complete the services required by this RFP. For each such contract, the Contractor should provide the name and telephone number of a contact person for the other contract party. Beginning and ending dates should also be given for each contract.

#### Subcontractors

The Contractor must disclose all subcontractors it uses or would intend to use in the servicing of the Authority's loans.

#### Evidence of Current Loans

The Contractor must provide evidence of the dollar amount and number of second mortgage loans it is currently servicing.

#### Custodial Accounts and Remittances

The Contractor must maintain separate insured custodial trust accounts, in a U.S. financial institution, for principal and interest, and taxes and insurance escrows. These accounts must be established in the name of the Authority as well as the Contractor, and the custodial institution must acknowledge the Authority's right to access these funds. The Contractor must have the ability to remit payments to the Authority daily, with no more than a two-business day lag in payment.

#### Escrows

The Authority will receive the benefit of all interest on escrows. The type and amount of any administrative or other fees or charges that reduce the escrow interest benefit must be disclosed. In the event that there is an escrow shortfall the Contractor shall fund the shortfall, and request reimbursement from the Authority to include the cost of funding escrow advances in the overall fee.

#### Late Fees

The Authority will retain late fees. The Authority's late fee is 4% of the P&I for FHA and VA, and 5% of the P&I for all other loans. The Authority may permit other ancillary income to be retained by the Contractor. Ancillary income that the Contractor wants to retain must be identified in the response to the RFP and will be subject to Authority approval.

#### Solicitations

The Contractor will not be permitted to engage in collateral solicitations or cross-selling of related products.

#### Limitations on Doing Business

The Contractor must not currently be subject to orders, insolvency proceedings, any actions of judicial or governmental authorities, or secondary markets that could, in the Authority's sole judgment, impair the Contractor's ability to perform the contract. The existence of any of the foregoing must be disclosed in the proposal and up to the time of contract execution. The Contractor must include in its contract language acceptable to the Authority that, if it becomes subject to such listed events when under the contract, it will immediately notify the Authority and the Authority may in its sole discretion terminate the contract.

#### Sale or Merger of Contractor

The Contractor must represent and warrant that there is at the time of the response to the RFP no conveyance or merger intended or pending that would result in the Authority's loans being subject to a transfer of servicing, i.e., the issuance of a "good bye letter," for a period of at least two years. If there is a transfer of servicing during the term of the contract, the Authority reserves the right to require that the loans be transferred to another Contractor of its choice, in which case any termination fee will be waived.

#### Errors and Omissions Insurance

The Contractor must provide evidence of current Errors and Omissions Insurance. The coverage must meet or exceed Fannie Mae, Freddie Mac and the Authority's guidelines.

#### Fidelity Bond

The Contractor must provide a Fidelity Bond that meets or exceeds Fannie Mae, Freddie Mac and the Authority's guidelines.

#### Financials and Audits

The Contractor is required to provide three years of annual audited financial statements, as well as the most recent year-to-date statements which may be un-audited if that is all that is available. These financial

statements must show to the Authority's satisfaction that the company is economically viable (has adequate positive cash flow and net worth to maintain high quality, unimpaired operations for the foreseeable future). The Contractor must also provide the results of any compliance audits of the Contractor conducted by HUD, VA or RD within the previous 3 years.

#### Required Audit by the Authority

The Authority plans to audit the Contractor at least annually. The Contractor must agree to provide appropriate on-site space for up to four Authority auditors and access to all files and computer records with respect to Authority loans, at no charge to the Authority.

#### Organizational Chart (Entire Firm and Contract Specific)

The Contractor must provide an organizational chart indicating the Contractor's entire organizational structure and the relationship of the individuals assigned to the contract to the Contractor's overall organizational structure. The chart should indicate the division of servicing duties (i.e. customer relations, collections, delinquency control, foreclosure/bankruptcy) and the number of employees assigned to each section. The chart should also indicate the number of full-time equivalent employees ("FTEs") the Contractor will assign or allocate towards Authority loan servicing. "Full-time equivalent employees" aggregates the amount of time spent by employees who are not assigned exclusively to Authority loan servicing and expresses their efforts as though their efforts were assigned to exclusive employees.

#### Organizational Support and Experience

The Contractor must include information relating to its organization, personnel and experience including, but not limited to, references, with contact names and telephone numbers, evidencing the Contractor's qualifications and capabilities to perform the services required by this RFP.

#### Equal Employment Opportunity

The Contractor must certify that it is an Equal Opportunity Employer as defined by applicable state and federal regulations; must comply fully with all government regulations regarding nondiscriminatory employment practices; and must be in compliance with the provisions of the Americans with Disabilities Act.

#### Sample Reports

The Contractor must certify that it is capable of preparing reports contained in the Servicing Manual, attached, and will provide such reports to the Authority in a timely manner if awarded this contract.

### Certifications

The Contractor must execute the attached Certification asserting (among other things) that it is not currently subject to order, insolvency proceedings, any actions of judicial or governmental authorities, or secondary markets that could, in the Authority's sole judgment, impair the Contractor's ability to perform the contract.

The Contractor must certify that there is, at the time of the response to this RFP, no conveyance or merger intended or pending that would result in the Authority's loans being subject to a transfer of servicing, i.e., the issuance of a "good-bye letter", for a period of at least two (2) years.

### Indemnification

The Contractor must:

Indemnify, defend and hold harmless the Authority, its Board, officers, employees and agents, from and against all losses, liabilities, penalties, fines, damages and claims (including taxes), and all related costs and expenses (including reasonable attorneys' fees and disbursements and costs of investigation, litigation, settlement, judgments, interest and penalties), arising from or in connection with any of the following:

- a. any claim, demand, action, citation or legal proceeding against the Authority, its employees and agents arising out of or resulting from (1) the services provided ("Services") or (2) performance of the Services, the duties, responsibilities, actions or omissions of the Contractor or any of its subcontractors under this Agreement;
- b. any claim, demand, action, citation or legal proceeding against the Authority, its employees and agents arising out of or resulting from a breach by the Contractor of any representation or warranty made by the Contractor in the Agreement;
- c. any claim, demand, action, citation or legal proceeding against the Authority, its employees and agents arising out of or related to occurrences that the Contractor is required to insure against as provided for in this Contract;
- d. any claim, demand, action, citation or legal proceeding against the Authority, its employees and agents arising out of or resulting from the death or bodily injury of any person, or the damage, loss or destruction of any real or tangible personal property, in connection with the performance of services by the Contractor, by any of its subcontractors, by anyone directly or indirectly employed by any of them, or by anyone for whose acts any of them may be liable;

provided, however, that this indemnification obligation shall not apply to the extent, if any, that such death, bodily injury or property damage is caused solely by the negligence or reckless or intentional wrongful conduct of the Authority;

- e. any claim, demand, action, citation or legal proceeding against the Authority, its employees and agents which results from an act or omission of the Contractor or any of its subcontractors in its or their capacity as an employer of a person; and
- f. any action or proceeding threatened or brought against the Authority to the extent that such action or proceeding is based on a claim that any piece of equipment, software, commodity or service supplied by the Contractor or its subcontractors, or the operation of such equipment, software, commodity or service, or the use or reproduction of any documentation provided with such equipment, software, commodity or service infringes any United States or foreign patent, copyright, trade secret or other proprietary right of any person or entity, which right is enforceable under the laws of the United States.

#### No Indemnification

The Authority will not provide indemnification under the contract; however, appropriate representations and warranties will be made by the Authority. The Michigan Court of Claims Act shall apply. (In brief, the Act governs litigation against State entities, and includes among other things, specific jurisdictional and venue restrictions, and a limitation on the right to a jury trial). Michigan law and venue shall apply to any dispute. IMPORTANT: Bids must affirm that no indemnification by the Authority will be included in the contract written by the Authority.

#### Legal Impairments

The Contractor must not currently be subject to orders, insolvency proceedings, any actions of judicial or governmental authorities, or secondary markets that could, in the Authority's sole judgment, impair the Contractor's ability to perform the contract. The existence of any of the foregoing must be disclosed in the proposal and up to the time of contract execution. The Contractor must include in its contract language acceptable to the Authority that, if it becomes subject to such listed events when under contract, it will immediately notify the Authority and the Authority may in its sole discretion terminate the contract.

#### Loans Per FTE

The loans per servicing employee ratio should not exceed 1,100 per FTE (unless justified by special circumstances).



### Computer Platform

The Contractor must identify the computer software platform and programs currently used in its servicing operation. An industry-accepted full service platform (please name vendor(s)), or equivalent in house platform (please describe capabilities), must be in place and must be compatible with the Authority's computer system and able to accept the transfer of loans from the Authority's current sub-servicer. The system must be capable of expanding and accepting add-ons that will be necessary to maintain state-of-the-art servicing capabilities over the term of the contract. The Authority uses, and will continue to use, specific software applications developed by Emphasys (formerly known as Application Oriented Designs, Inc.) for on-line lender loan reservations and to process and monitor loan activity. The respondent must have the ability to receive and send electronic files of loan activity through a secure file-transfer-protocol process utilizing 128-bit SSH and SSL PGP encryption. Any information that may be otherwise sent as a hard-copy must be able to be accepted in an electronic format. The respondent must have the ability to comply with the specific file-layout as required by the software vendor for the file transfers.

### Software

All reports, documents and information that the Contractor submits to the Authority must be in Word, Excel, .pdf or .txt format.

### Community Reinvestment Compliance

The Contractor must certify that it has a CRA rating of "satisfactory" or better, or that the CRA is not applicable to the Contractor.

### Disaster Recovery Plan

The Contractor must submit its current disaster recovery plan, and will be required to agree to maintain an acceptable disaster recovery plan if awarded this contract. The Contractor must also indicate how frequently the plan is tested and upgraded, and how the plan performed in its most recent test.

### Security of Data

The Contractor must disclose its policy regarding the collection and/or use of confidential and/or personal data. The policy must address the security of paper and electronic data that contains confidential and/or personal data.

### **III. Submitting Proposal:**

Firms wishing to submit proposals must submit one (1) original and three (3) copies of a proposal to provide the services described in Exhibit A (Scope of Work). Submitted proposals must respond to and address the concerns listed in Section II (Required Qualifications) and Exhibit B (Proposal Instructions and Selection Criteria).

The due date for the Authority's receipt of the proposals responding to this Request for Proposal ("RFP") is **April 14, 2006**, at 4:00 p.m.

The Authority shall not be liable for any costs that a firm or individual may incur while preparing a proposal. The Authority shall not be liable for any costs that a firm or individual may incur prior to the complete execution of a contract. If the Authority enters into a contract, the Authority's consideration (payment) shall be limited to the terms of the contract.

### **IV. Communications with Authority Staff Prior to Selection of Proposal:**

Any questions raised by the Contractors concerning the RFP must be submitted in writing, via mail, e-mail or fax, using the subject line "Request for Proposal Sub-servicing of Single Family Portfolio" to the attention of:

Michigan State Housing Development Authority  
Attn: Peter Karsten  
735 East Michigan Ave.  
P.O. Box 30044  
Lansing, Michigan 48909

or

E-mail: karstenp@michigan.gov  
Fax: (517) 241-4756

To ensure a fair and impartial process, Authority staff will not address non-written inquiries concerning the RFP. Phone calls involving the RFP or related questions will not be accepted. Firms submitting bids shall not contact any Authority staff or Board members. Questions must be received in writing by March 24, 2006.

The Authority will answer timely-received, appropriate questions (e.g., information not covered/answered in the RFP, interpretation issues, etc.) by e-mail within five business days. The Authority will hold no other question sessions or bidders' conferences.

Any written questions received regarding the RFP, along with the Authority's responses, will be posted on the Authority's website at [www.michigan.gov/mshda](http://www.michigan.gov/mshda).

If, prior to the proposal deadline, the Authority deems it necessary to provide additional clarifying information, or to revise any part of the RFP, supplements or revisions will be provided to all recipients of the RFP who have indicated they will submit a proposal. Proposals will then be evaluated based on the terms and conditions of the RFP, any supplements or revisions thereof, and the answers to any written questions.

**V. Selection of Proposal:**

The Authority's Office of Finance will select the proposal based on Selection Criteria that are set forth in Exhibit B (Proposal Instructions and Selection Criteria).

**VI. Processing Required Forms & Contract Execution:**

The Authority's Board must approve the proposed contract. Thereafter, the Authority will submit required forms for processing to the Departments of Labor & Economic Growth and Civil Service. Upon the completion of processing by the Departments of Labor & Economic Growth and Civil Service, a contract will be forwarded to the firm ("Selected Contractors") that submitted the selected proposal with instructions to execute and return three copies. Upon receiving the executed copies, the Office of Finance will submit the executed copies to a duly authorized Authority signatory for execution on behalf of the Authority.

**VII. Michigan Freedom of Information Act:**

Documents submitted to the Authority are subject to the Michigan Freedom of Information Act ("FOIA"). In the event a request for submitted documents is made to the Authority, the Authority's FOIA Coordinator will redact or withhold information and/or documents that are exempt from disclosure under FOIA. *See MCL 15.243*. Please note that any requests by non-MSHDA personnel to review proposals will be denied until the deadline for submission of the bids has expired. *See MCL 15.243(1)(j)*.